Guide to

Municipal Capital Borrowing

New Brunswick

Municipal Affairs

GUIDE TO MUNICIPAL CAPITAL BORROWING:

Applying to the Municipal Capital Borrowing Board and Preparing a Municipal Capital Plan

New Nouveau Brunswick

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INTRODUCTION

The Department of Municipal Affairs has produced this guide for municipalities to assist elected and appointed officials in applying to the Municipal Capital Borrowing Board for authorization to borrow capital funds. This guide also provides useful advice on how to develop an effective five year capital plan in order to properly identify the optimum level of borrowing required and its effect on the municipal budget.

These are important matters for municipalities. Numerous alternatives exist for financing capital expenditures, and it is up to each individual municipality to decide which method best suits its needs. The appropriateness of the various alternatives must be considered in terms of a multi-year capital plan which matches the requirement for capital investment, plus the needs of the operating budget, to the various sources of revenue. The emphasis must be on logical, considered financial planning.

As municipalities contemplate the replacement of their aging infrastructure, they must explore opportunities to improve the management of their debt. Long range planning is essential to this process. Among the options to be considered are: reducing the debt service cost; increasing capital budgets; reducing the amortization period of future borrowings; financing a portion of the capital expense on a pay-as-you-go basis; and, placing funds in reserve.

The Municipal Capital Borrowing Board, in hearing applications for borrowing, ensures that municipalities meet the requirements of the Municipal Capital Borrowing Act and established Board policies. The hearing of applications also provides a public forum where concerns about the intended borrowings can be aired.

In preparing applications to the Board, Municipal Affairs staff can provide advice and assistance to municipalities including advice regarding scheduling and amortization of loans in an ever changing financial market and guidelines for debt service cost. The Department also provides support services to the Board and prepares a detailed analysis on each application submitted.

June 1991

PART ONE

APPLYING TO THE MUNICIPAL CAPITAL BORROWING BOARD

1. WHO MUST APPLY

Following is a list of the local authorities/agencies who are required to apply to the Municipal Capital Borrowing Board for approval to borrow for capital expenses:

i. **Municipalities**, prior to borrowing, must obtain the authorization, in writing, of the Municipal Capital Borrowing Board as required by Section 6(1) of the Municipal Capital Borrowing Act.

ii. **Municipalities** must also apply, under the terms of Subsection 14(1) of the Act, to guarantee loans of the following:

- **A corporate body** which provides a municipal service. Examples include recreation councils or associations and library boards.
- **The Board of Police Commissioners,** established pursuant to Subsection 17.1 of the Police Act.
- **Corporations** (for example, solid waste commissions, sewerage commissions) constituted or continued under Subsection 15.2 of the Clean Environment Act. (Section 14(1) Municipal Capital Borrowing Act).

iii. **Sewerage Commissions** borrowing directly for service to the unincorporated areas and established pursuant to Subsection 15.2 of the Clean Environment Act are required to apply as provided for under Subsection 14 (1) of the Municipal Capital Borrowing Act.

iv. **Solid Waste Corporations** borrowing directly for the unincorporated areas, and established pursuant to Section 15.2 of the Clean Environment Act, are required to apply, as provided for under Subsection 14 (1) of the Municipal Capital Borrowing Act.

2. CAPITAL BORROWINGS REQUIRING AN APPLICATION

Capital borrowings that require an application to the Municipal Capital Borrowing Board for approval are:

i. Interim financing;

ii. Borrowing from:

. Federal Government;
. Provincial Government;
. New Brunswick Municipal Finance Corporation;
. Municipal Reserve Funds established under Subsections 90 (3), 90 (3.1), 90 (3.2) and 189(7) of the Municipalities Act;
. Municipal Sinking Funds established under Section 7 of the Municipal Debentures Act;
. Trust funds for which the municipality is the trustee;
. Capital leases as defined in Regulation 84-21 of the Municipal Capital Borrowing Act;
. Purchase agreement as defined under Regulation 84-21 of the Municipal Capital Borrowing Act; and

iii. Municipalities guaranteeing loans of municipal enterprises per Subsection 6 (1) of the Municipal Capital Borrowing Act.

3. WHAT IS AN ELIGIBLE CAPITAL EXPENSE

In developing capital plans and determining borrowing strategies municipalities should be aware of the following policy of the Municipal Capital Borrowing Board:

Under Section 4(1) of the Municipal Capital Borrowing Act, a capital expense means an expenditure for a tangible asset that confers a benefit on a municipality for a period exceeding one year. Expenditures related to the purchase or construction of a tangible asset include:

Legal, title and closing costs;
Surveying, accounting and appraisal fees;
Architectural and engineering preliminary plans;
Insurance premiums and interest costs during construction;
Transportation charges;
Debenture issue expenses;

and may be considered capital expenses for borrowing purposes.

Other eligible capital expense items include the provision of the initial municipal plan under the Community Planning Act. Similarly, a grant to a corporation to provide a municipal service to the general public (for example, a grant to a recreation association or educational institution for the construction of a swimming pool, library, or track and field facility) may be considered a capital expenditure and therefore eligible for long-term borrowing; but remember, the municipality must have a binding commitment from the corporation or agency to provide the service for the term of the loan.

Finally, expenditures which significantly increase the life expectancy of a tangible asset or its value or service beyond its original purpose can be considered a capital expense for borrowing purposes.

Management, feasibility, market, traffic and other studies are not to be considered capital expenses for borrowing purposes.

4. TIMING OF COMMITMENTS

Municipalities cannot commit, contract or otherwise obligate the municipality for an expenditure requiring money to be borrowed by issuing debentures, or for a capital lease or purchase, until an Order in Council is issued authorizing the borrowing.

Similarly, if property is to be purchased with borrowed funds, negotiations may proceed and an option taken on the property. However an agreement to purchase may not be completed until an Order in Council is issued authorizing the required borrowing.

Tenders, quotes, etc. for purchases or expenditures may likewise be invited and opened, but they cannot be accepted if borrowed capital funds are required, until an Order in Council is obtained.

5. APPLICATION AND APPROVAL PROCESS

Municipalities or authorized agencies and corporations planning to borrow must follow certain steps in connection with their application to the Municipal Capital Borrowing Board:

Step 1 - Council Resolution

Once a municipal council has decided to proceed with the project for which borrowing is required, it must officially record its approval of the financing arrangements by adopting an appropriate resolution. An example of a typical resolution is shown below. This resolution must be certified and sealed with the municipal seal and forwarded to the Secretary of the Municipal Capital Borrowing Board. A schedule of Municipal Capital Borrowing Board hearing dates can be obtained from the Secretary of the Board.

Sample of a Resolution of Council

"That the Municipality of _____ submit to the Municipal Capital Borrowing Board an application for authorization to borrow or guarantee the repayment of money borrowed or deemed borrowed for a capital expenses for the following, terms and amounts:"

Purpose	Amount ($)	Term

I certify that the above is a true and exact copy of a resolution passed by the council of the Municipality of _____ on the _____ day of _____, 19__.

_____

Seal

Clerk

Step 2 - Advertisement

Municipalities wishing to borrow funds must advertise their intention to apply to the Municipal Capital Borrowing Board using Form 2 in Appendix I.ii, - once in **The Royal Gazette** and in two consecutive issues of a local newspaper.

The purpose of borrowing must be clearly conveyed to the public in the Notice of Intention (see Appendix I.iv, Classification of Capital Projects).

The Royal Gazette must have the ad at least 10 days before publication date. (A schedule outlining final dates for advertising can be obtained from the Secretary of the Board). A charge is levied for the notice, and no refunds are issued for cancellations. The Queen's Printer will refuse to publish an advertisement if it is illegible and may delay publication of material for administrative reasons.

The notice is to be mailed to:

The Royal Gazette
P. O. Box 6000
Fredericton, N.B.
E3B 5H1

After the advertisement appears in the local paper, the municipality is required to submit to the Secretary of Municipal Capital Borrowing Board the complete pages on which the ads appeared as proof of advertising.

NOTE

Application to the Municipal Capital Borrowing Board for authority to borrow for a capital expense, the total sum of which shall be repaid within three (3) years by Federal or Provincial grants, *does not require advertising*.

Step 3 - Application to the Board

Applications using Form 1 in Appendix I.i, are to be submitted to:

Secretary, Municipal Capital Borrowing Board
Department of Municipal Affairs
P.O. Box 6000
Fredericton, NB
E3B 5H1

The following information must accompany an application (see checklist Appendix I.iii):

I. **Resolution of Council**

- Certified, sealed copy.

II. **Project Description**

Since the authorization to borrow is given according to fund (General or Water and Sewer, etc.), and by services within that fund, the application must clearly indicate the service for which the project is being undertaken.

The various services are: General Government, Protective, Transportation, Environmental Health, Environmental Development, and Recreation and Cultural. (See Appendix I.iv for information on classification).

A further breakdown according to object is desirable, i.e., land, buildings, engineering structures, and furnishing and equipment. For example:

Transportation Services	
Land for right-of-way	$ 10,000
Roof renewed, public works building	5,000
Paving, one half mile of streets	$200,000
Total: Transportation Services	$215,000

The following additional information should be provided when acquiring an asset:

- **Land** - its market value, supported by a qualified appraisal.
- **Buildings Constructed** - preliminary plans, type of construction, and pro forma operating and maintenance budget.
- **Buildings Purchased** - its market value supported by a qualified appraisal and rental income if any.
- **Engineering Structures** - new or replacement and description of work to be done.
- **Machinery, Equipment and Furnishings** - list items under appropriate service stating if it is new or replacement.

III. **Capital budget**

- Capital budget for the year in question showing the source and application of funds.

IV. **Capital plan**

- Updated five-year plan. (for General Operating Fund see Appendix III.vii and for Water and Sewer Utility Fund see Appendix III.x)

V. **Debt profile and budget estimates**

- Include details of projections used (e.g. percentage increases)

VI. **Disposition of Outstanding authority**

- List all outstanding authority to borrow (see page 1.10, section 6) and indicate the year when long-term financing will be undertaken.

VII. **Confirmations**

The following approvals and confirmations are required:

i. **Grants** - confirmation from granting authority.

ii. **Water & Sewer projects** - technical approval by the Department of the Environment.

iii. **Cost sharing** - Municipalities are reminded that written confirmation must be obtained from the Department of Municipal Affairs for capital assets which are cost shared with Local Service Districts (L.S.D.).

Step 4 - Dates of Public Hearing Published

The Municipal Capital Borrowing Board publishes the date for public hearings. This date is published once in a local paper and once in **The Royal Gazette** prior to every meeting.

Step 5 - Public Hearings

The Municipal Capital Borrowing Board holds a public hearing on the advertised dates, reviews the application and may approve or reject the application.

Step 6 - Lieutenant-Governor in Council Approval

Any authorization granted by the Municipal Capital Borrowing Board must be approved by the Lieutenant-Governor in Council before the municipality can proceed with its projects.

Step 7 - Interim Financing

Upon receipt of the Order in Council, the municipality may obtain a line of credit for interim financing from a lending institution at a rate of interest not to exceed the chartered banks' prime lending rate, in order to begin the project.

Step 8 - Long-Term Financing

When the project is completed and final costs are known, arrangements for long-term financing are made with the New Brunswick Municipal Finance Corporation. The New Brunswick Municipal Finance Corporation has been established to issue debentures on the securities market, on behalf of municipalities, and their approved agencies and corporations. The Corporation, in turn, loans the money to the municipalities at the same rate of interest obtained by the Corporation. To reduce interim financing costs, large projects, such as buildings, may be financed in phases.

Further information may be received form the Secretary of the Municipal Capital Borrowing Board who also serves as the Secretary of the Municipal Finance Corporation at:

Department of Municipal Affairs
P.O. Box 6000
Fredericton, N.B. E3B 5H1
Tel: (506) 453-2154

6. VOIDING OF AUTHORITY

Authorization to borrow is voided if:

- the project for which the loan is authorized has not been commenced within two years of the date the authority was granted.
  e.g. Authority is granted by Order in Council dated April 11, 1988 under Environmental Development Services for the purchase of land. If by April 11, 1990 the municipality has not purchased this land, the authority is voided.

- the amount of the authorization exceeds the cost of the project; the excess is voided.
  e.g. The municipality, at the time of it's application to the Municipal Capital Borrowing Board for authority to borrow to purchase this land, expects the selling price to be $25,000 and obtains authority for that amount. The final price is actually $22,500 and therefore, $2,500 is to be voided.

- a portion of the authorization is covered by federal, provincial or other grants; that portion is voided.
  e.g. The municipality, after obtaining authority to borrow $25,000 for the purchase of land, receives an unplanned grant for that same purchase in the amount of $3,000. The grant amount of $3,000 would then be voided.

It is the municipality's responsibility to keep this information up-to-date and to inform the secretary of the Municipal Capital Borrowing Board when authority should be voided.

Reference: Municipal Capital Borrowing Act, Section 10.

7. CHANGE OF PURPOSE

Money may only be diverted to a purpose other than that for which it was obtained when such diversion is made with the approval of the Municipal Capital Borrowing Board.

A written request, accompanied by a resolution of council, must be forwarded to the Secretary of the Board.

Reference: Municipal Capital Borrowing Act, Section 11(2)

PART TWO

CAPITAL PLANNING

1. IMPORTANCE OF CAPITAL PLANNING

Municipalities, like many other organizations, are becoming aware of the growing need for longer term planning. For growing municipalities, there is pressure to expand capital assets while in more established municipalities there usually is a need to consider the replacement of their capital assets.

Capital planning is a financial planning tool that aids a municipal council in establishing priorities for its spending on services while controlling the ultimate impact on the tax rate. Capital Planning also provides a mechanism for controlling future debt levels thereby ensuring that a reasonable amount of financial flexibility is maintained.

A capital plan projects capital expenditure needs several years into the future. Most capital expenditures such as the installation of a water and sewerage infrastructure or the purchase of a fire truck can be projected well in advance. The capital plan, while prepared or revised annually, assigns priorities to meeting these needs in light of financial constraints imposed by the municipal council, usually in the form of a maximum tax rate. Other limits are also specified in the Municipalities Act and by policies of the Municipal Capital Borrowing Board.

Although the capital plan is maintained separately from the operating budget, they do work in unison since the debt charges on funds borrowed for capital expenditures become expense items in the annual operating budget. In addition, operating and maintenance costs of capital assets have an impact on the operating budget.

In order to have a realistic, workable capital plan, therefore, it is necessary to estimate the effect that debt service and operating costs will have on future tax rates. In this way, non-essential capital expenditures will not be undertaken at the expense of pending essential capital projects and the municipality will thus be in a better position to control future debt levels.

In its review of applications, the Municipal Capital Borrowing Board must be satisfied that future revenues will be available to repay the debt. A capital plan should illustrate not only that the proposed borrowing is within the financial capacity of the municipality but also that consideration has been given to future capital requirements.

2. CAPITAL PLANNING PROCESS

The capital planning process represents a combined effort between the council, and senior appointed officials. The council's role is to establish guidelines or policies that provide direction to the staff who, in turn, utilize their specialized skills to develop a five year capital plan for providing services to the taxpayers of the municipality.

The long-term capital plan is a statement of council and therefore should be adopted by resolution of council. It is a most useful planning tool and as such should be utilized and updated on an annual basis as the municipality's situation and/or priorities change. The annual exercise should include the removal of the year just completed and the addition of a new 5th year. In this way the plan is always current.

In many municipalities, the capital plan is developed by way of a special committee, usually the Finance Committee, which is made up of members of council and department heads. Upon completion, the capital plan is forwarded to council for adoption.

The process usually consists of the following steps:

(1) Identification of services to be provided and the capital expenditures to be incurred;

(2) Determination of cost estimates of capital expenditures;
(consideration of such cost elements as land, architect/engineering fees, construction, legal fees, etc.)

(3) Determination of the time periods over which the asset is to be constructed or acquired and the costs prorated accordingly;

(4) Determination of all revenues to be applied to each project.

Potential revenue sources:

External
- -federal/provincial grants
- -contribution from developers,
- -recovery from Local Service Districts or other municipalities.

Internal -capital from operating
-reserve funds.

(5) Amount to be financed is determined.

(6) Review of individual projects by council for acceptance or rejection and to establish spending priorities.

(7) Derive a total capital expenditure plan which consists of annual totals for various projects within the services (see Appendix I.v), and totals for the various sources of financing, including long-term borrowing.

(8) Analysis undertaken to measure the impact on future operating budgets.

Factors to be considered:

Council policies and guidelines
Borrowing limits under the Municipalities Act
Debt service cost to gross expenditure ratio (see page 2.7)
Term for financing (see Appendix II.v)
Municipal Capital Borrowing Board policies
Impact on tax rate/user fee

(9) Plan presented to council for consideration and adoption.

3. ELEMENTS OF A FIVE YEAR CAPITAL PLAN

A Capital plan should include the following (see Appendix III for detailed examples):

(1) List and description of each capital project, including the purpose of the project, over a five year period;

(2) Estimate of the capital costs for each project;

(3) Source of funds for each project;

(4) Corresponding debt charges and operating and maintenance costs. On occasion, a project may result in a reduction of the existing operating and maintenance costs;

(5) Summary of the total capital budget, by year, for the next five years;

(6) Operating budget estimates over the same five year period.

The capital plan, therefore, includes a list and description of each proposed capital project and the associated costs over a five year period. This approach is useful in that some capital projects may take more than one year to complete, and once started, represent a commitment to a certain level of expenditure.

The first year of the five year capital plan constitutes the municipality's current year capital budget.

4. PREPARATION OF THE FINAL DOCUMENT

Appendix III contains a model capital budget which illustrates the elements of such a budget. The model is a suggested format and municipalities should adopt a plan that best suits their individual requirements and characteristics. Nevertheless, the plan should comprise all of the elements previously described in section 3.

Included in the model capital budget is a schedule entitled "Debt Profile and Budget Estimates" page III.viii, which warrants some discussion. The comments here will focus on the General Fund sample although the Water and Sewerage Fund sample is similar in many respects.

As indicated by its title, the Debt Profile and Budget Estimates schedule provides budget estimates of the impact of the five year capital plan on the municipality's future debt level and tax rates. The schedule is divided into two main sections with the top part providing operating fund details; the bottom portion provides debt cost figures on the proposed borrowing based on planned capital expenditures. In the bottom section, ratios are also provided to reflect the municipality's debt position.

(i) With respect to the budget estimates section, you will note that a limited number of key revenue and expenditure accounts are presented:

Revenues

Warrant - can be calculated by deducting non-tax revenues, unconditional grant and surplus of previous years from total expenditures.

Unconditional Grant - as provided by the Department of Municipal Affairs pursuant to the Municipal Assistance Act.

Non-Tax Revenue - all other revenues from such sources as fines, services provided to other governments etc.

Surplus of Previous Year - the audited surplus, if any, of the second previous year is to be included as a revenue item pursuant to section 89(8) of the Municipalities Act.

Expenditures

Debt Cost - includes the costs of servicing present debt and planned borrowing. This line corresponds to the total debt service cost line of the debt profile section of the analysis.

Capital from Budget - represents capital expenditures to be financed or paid for directly from the operating fund.

Water Costs - Since expansions to the water system usually result in increases in the amount of water costs for fire protection, this expense item is usually helpful in highlighting increases in expenditures.

Deficit of Previous Year - the audited deficit, if any, of the second previous year is to be included as an expense item pursuant to section 89(9) of the Municipalities Act.

Other Expenditures - represents all other operating costs for administration, day-to-day maintenance, salaries, wages, etc. In most cases, these costs increase annually at about the rate of inflation unless adjusted for an increase or decrease in service.

Tax Rate Denominator - assessed value of all real property subject to taxation in the municipality. A projection is usually based on a blend of historical increases in tax base and anticipated growth trends.

(ii) **The debt profile** provides more detail on the debt cost:

Present Debt Service Cost - debt cost on existing debt. These amounts can be obtained from the municipality's debenture records and should be verified with the Municipal Capital Borrowing Board's up-to-date debt profiles on each municipality.

Interim Financing - this represents short-term interest costs relating to the General as well as Capital Fund. These costs as they relate to capital items will depend on the period of time over which a project is to be completed as well as on the timing of the availability of long-term financing.

Outstanding Authority - represents the amount of borrowing authority already obtained from the MCBB which has yet to be financed (see interim financing). Projections should include debt repayment according to estimated date of completion and financing. Amounts should be verified with the Secretary of the Municipal Capital Borrowing Board.

Planned Borrowing - debt costs associated with the proposed borrowing for financing capital expenditures over the next five years. The interest rate is normally based on projected rates for debenture issues while the term should not exceed the expected useful life of the asset. The debt cost amount is then obtained by employing a blended interest and principal payment schedule. For example, the annual debt cost on borrowing of $400,000 at a rate of 10% for 10 years would be determined by multiplying $400,000 by a factor of 0.162745, which equals $65,000. A table of factors is presented in Appendix II.iv.

Total Debt Service Cost - represents total existing, pending and planned debt costs that are to be included in the budget estimates.

(iii) The last portion of the schedule provides a number of indicators which are utilized to measure the municipality's debt position.

Debt Service Cost to Gross Expenditures - a measure of the portion of a municipality's budget which is allocated to the repayment of long-term debt. Total Debt Service Cost includes:

- Principal repayment
- Interest expense
- Interim interest
- Debenture issue expenses
- Sinking fund allocations

It is calculated by dividing Total Debt Service Cost by Total Expenditures and then multiplying the result by 100.

Outstanding Debt-December 31 - total amount of outstanding principal owing at the end of the fiscal year.

Outstanding Debt to Tax Base - measures the portion of total outstanding debt as a percentage of the tax base. The amount is arrived at by dividing the outstanding debt by the tax rate denominator and multiplying the result by 100.

Outstanding Debt per Capita - a measure of the debt obligation calculated on the basis of population. This ratio displays the number of dollars each individual in the municipality would have to contribute in order to pay off all debts of the municipality. The ratio is calculated by dividing the total outstanding debt by the population of the municipality.

Debt Service Cost Effect on Tax Rate - a measure of the portion of the tax rate used for the repayment of the debt. This amount is expressed in cents and is calculated by multiplying the debt cost ratio by the tax rate.

APPENDICES

APPENDIX I

FORM 1

APPLICATION FOR AUTHORIZATION

under the

Municipal Capital Borrowing Act

The Municipality of _____ hereby submits to the Municipal Capital Borrowing Board an application for authorization to borrow money (or to guarantee the repayment of money borrowed or to enter into a lease, lease-purchase or purchase arrangement) in an amount not to exceed $_____ for a term not to exceed _____ years for the following purposes:

This application is made pursuant to Section 1.1 (or Subsection 4(1)) (or Section 1.1 and Subsection 4(1)) of the Municipal Capital Borrowing Act and a resolution of the Council of the _____ of _____under date of _____19____.

Dated this _____ day of _____, 19___.

_____

Clerk

APPENDIX I

FORM 2

NOTICE OF INTENTION

under the

Municipal Capital Borrowing Act

Notice of Intention is hereby given that the Municipality of _____ will submit to the Municipal Capital Borrowing Board an application for authorization to borrow money (or to guarantee the repayment of money borrowed, or to enter into a lease, lease-purchase, or purchase arrangement) in an amount not to exceed $_____ _____ for a term not to exceed _____ years for the following purposes:

as set forth in Section 1.1 (or Subsection 4 (1)) (or Section 1.1 and Subsection 4 (1)) of the Municipal Capital Borrowing Act and as authorized by vote of the Council of _____ under date of _____ 19__.

_____

Clerk

APPENDIX I

APPLICATION CHECKLIST

The following items must accompany your application (form 1). Please check those items that are included and use N/A if the item is not applicable. For those items that are not included please indicate when they will be forwarded etc.

1. Council Resolution, certified and sealed ____
2. Proof of advertising in Royal Gazette and local paper ____
3. Project Description ____
4. Current year capital budget ____
5. Five-year capital plan ____
6. Debt profile & budget estimates projections ____
7. Disposition of outstanding authority ____
8. Confirmations ____

COMMENTS:

APPENDIX I

CLASSIFICATION OF CAPITAL PROJECTS*

for advertising and applying to the Municipal Capital Borrowing Board

General Government Services:

Land, buildings, furniture and equipment for council chambers and general administrative officers.

Protective Services:

Project for the police and fire protection, emergency measures, and animal and pest control.

Transportation Services:

Public works garages, streets and roads, sidewalks, storm sewers, traffic control, street signs, street lighting, parking, airport, wharfs and transit.

Environmental Health Services:

Solid waste collection and disposal and water and sewer.

Environmental Development Services:

Development of industrial, tourism and natural resources, housing, planning, conventions and markets.

Recreation and Cultural Services:

Recreation facilities, community centres, libraries, museums, theatres, historic sites and zoos.

* **Statistics Canada - A Financial Information System for Municipalities**

APPENDIX II

SUGGESTED DEBT MANAGEMENT POLICIES FOR MUNICIPALITIES

1. Long-term borrowing is to be confined to capital expenses as defined on page 1.3.

2. Amortize loans for periods not exceeding those listed in Appendix II.v.

3. Charge interim financing cost incurred after the completion of the project to the current operating fund budget.

4. Salaries of administrative personnel and the wages of full-time employees should not be charged to the capital budget.

5. As soon as possible after completion of a capital project, finance borrowing from lenders listed in Section 13 (1) and 13 (3) of the New Brunswick Municipal Finance Corporation Act.

6. Schedule repayments so that the first year's principal and interest charges are equal to or greater than the following year's interest and principal payment cost.

7. Maintain the debt service cost to gross expenditure ratio of the general operating fund budget below 20%. (See page 2.7 for definition of this ratio).

Municipalities are also reminded that, in calculating their debt service cost, they must include their share of debt or guaranteed debt, that may exist for commissions such as transit and solid waste.

APPENDIX II

HOW TO DETERMINE THE ANNUAL COST OF MONEY BORROWED USING SERIAL DEBENTURES WITH BLENDED PAYMENT SCHEDULES

1. Determine your term and rate of interest. Then obtain the appropriate factor from the factor table in this Appendix .

2. Multiply this factor by the number of dollars to be borrowed. This will give you the amount required to meet the annual interest and principal payments.

   For example: consider $100,000 borrowed at 10½% on a 10-year serial debenture dated October 1, 1990 with blended annual payments.

   The annual debt service cost (principal repayment and interest cost) is calculated as follows:

Multiply $100,000 x .16626		= $16,626	
First year interest cost is	$100,000 x 10½%	= $10,500	$10,500
First year principal repayment is	$16,626 - $10,500	= $ 6,126 rounded	$ 6,000
Therefore, total first year cost is	. . . . .		$16,500
Second year interest cost is	$100,000 - $6,000	= $94,000 x 10½%	$ 9,870
Second year principal repayment is	$16,626 - $9,870	= $ 6,756 rounded	$ 7,000
and total second year cost is	. . . . .		$16,870

In this way, a repayment schedule can be worked out as follows:

Year	Outstanding Principal	Principal Repayment Oct. 1	Semi-Annual Interest April 1	Semi-Annual Interest Oct. 1	Total Charge
1991	$100,000.00	$6,000.00	$5,250.00	$5,250.00	$16,500.00
1992	94,000.00	7,000.00	4,935.00	4,935.00	16,870.00
1993	87,000.00	7,000.00	4,567.50	4,567.50	16,135.00
1994	80,000.00	–	–	–	–

APPENDIX II

HOW TO DETERMINE THE ANNUAL COST OF MONEY BORROWED USING SERIAL DEBENTURES WITH EQUAL ANNUAL PRINCIPAL PAYMENTS

1. To calculate payments on a $100,000 loan borrowed at 10½ % on a 10-year serial debenture dated October 1, 1990 using equal annual principal payments you do the following:

   Divide $100,000 by the number of years over which the loan is to be amortized. This yields the annual principal repayment.

   The interest cost is then determined by multiplying the outstanding principal by the interest rate. For example:

First year principal repayment $100,000 ÷ 10	=	$10,000
First year interest cost is $100,000 x 10½ %	=	$10,500
Total first year cost	=	$20,500
Second year principal repayment $100,000 ÷ 10	=	$10,000
Second year interest cost is $90,000 x 10½	=	$ 9,450
Total second year cost	=	$19,450

In this way, a repayment schedule can be worked out as follows:

Year	Outstanding Principal	Principal Repayment Oct. 1	Semi-Annual Interest April 1	Semi-Annual Interest Oct. 1	Total Charge
1991	$100,000.00	$10,000.00	$5,250.00	$5,250.00	$20,500.00
1992	90,000.00	10,000.00	4,725.00	4,725.00	19,450.00
1993	80,000.00	10,000.00	4,200.00	4,200.00	18,400.00

APPENDIX II

FACTORS

PERIODIC PAYMENT NECESSARY TO PAY OFF A LOAN OF $1.00

RATE OF INTEREST .....TERMS IN YEARS.....

%	5	10	15	20
7	.243 890	.142 377	.109 794	.094 392
7 1/4	.245 525	.144 027	.111 534	.096 234
7 1/2	.247 164	.145 685	.113 287	.098 092
7 3/4	.248 808	.147 353	.115 052	.099 964
8	.250 456	.149 029	.116 829	.101 852
8 1/4	.252 108	.150 714	.118 618	.103 754
8 1/2	.253 765	.152 407	.120 420	.105 670
8 3/4	.255 426	.154 109	.122 233	.107 601
9	.257 092	.155 820	.124 058	.109 546
9 1/4	.258 762	.157 538	.125 895	.111 504
9 1/2	.260 436	.159 266	.127 743	.113 476
9 3/4	.262 114	.161 001	.129 603	.115 461
10	.263 797	.162 745	.131 472	.117 459
10 1/4	.265 484	.164 497	.133 355	.119 470
10 1/2	.267 175	.166 257	.135 248	.121 493
10 3/4	.268 870	.168 025	.137 151	.123 528
11	.270 570	.169 801	.139 065	.125 575
11 1/4	.272 273	.171 585	.140 989	.127 634
11 1/2	.273 981	.173 377	.142 924	.129 704
11 3/4	.275 693	.175 176	.144 869	.131 786
12	.277 409	.176 984	.146 824	.133 878
12 1/4	.279 129	.178 799	.148 789	.135 892
12 1/2	.280 854	.180 621	.150 763	.138 095
12 3/4	.282 582	.182 451	.152 748	.140 219
13	.284 314	.184 289	.154 741	.142 353
13 1/4	.286 050	.186 134	.156 744	.144 497
13 1/2	.287 791	.187 986	.158 757	.146 651
13 3/4	.289 535	.189 846	.160 778	.148 813
14	.291 283	.191 713	.162 808	.150 986

APPENDIX II

TERMS FOR AMORTIZATION OF LOANS

When Financing	Term
Land	not exceeding 20 years
Buildings: Brick, concrete, metal clad, wood frame	not exceeding 20 years
Water and Sewer: Equipment - wells, lift station - filtration	not exceeding 30 years
Sewerage collection and water distribution lines	not exceeding 30 years
Street: Asphalt paving, curbs and gutters, sidewalks and storm sewers	10 - 15 years
Chipseal	5 - 10 years
Equipment and Furnishings: Light - auto, truck, office and playground equipment	3 - 5 years
Heavy - backhoe - graders	not exceeding 10 years
Fire trucks	not exceeding 15 years
Fire fighting equipment	not exceeding 5 years
General: Signage	not exceeding 5 years
Fencing	not exceeding 10 years
Ballfield lights	not exceeding 15 years

APPENDIX III

MUNICIPALITY OF MODELVILLE

FIVE YEAR CAPITAL PLAN

(199V-199Z)

RESOLUTION

Excerpt from the Minutes of Meeting of the Municipality of Modelville held on October 6, 199U at 7:00 PM at the Town Hall.

Present: Mayor: John Hanson

Councillors: O'Neil, Arsenault, LeBlanc, O'Brien, Young

Staff: Manager, Clerk, Transportation Director, Recreation Director.

8U-353 Moved by Councillor O'Neil and seconded by Councillor LeBlanc that the document entitled "Municipality of Modelville -Five Year Capital Plan (199V-199Z) prepared by the Capital Plan Committee be adopted.

Passed.

INTRODUCTION

This document provides a listing and description of planned capital projects for the Municipality of Modelville for the five year period 199V-199Z. It includes cost estimates and planned financing for each project.

The municipality's five year capital plan also includes operating budget estimates of the general and the water and sewerage system for the next five years. Incorporated into these estimates are the debt costs associated with the planned borrowing and the estimated operating and maintenance costs associated with each project. The full impact of the municipality's capital plan is therefore reflected in these estimates.

CAPITAL PLAN CONTENTS

General Operating Fund Section

i)Description of Projects
- General Government
- Protective Services
- Transportation
- Recreation

ii)Five-year Capital Budget Summary

iii)Debt Profile and Budget Estimates

Water and Sewerage Utility Fund Section

i)Description of Projects

ii)Five-year Capital Budget Summary

iii)Debt Profile and Budget Estimates

GENERAL OPERATING FUND SECTION

DESCRIPTION OF PROJECTS

General Government

The municipality plans to construct a much needed municipal administration building. The current facility no longer meets the requirements since it is too small for both the council and administrative staff needs. The present facility can be expanded and renovated to meet the needs of the police department.

Year	Project	Cost
199V	i)Purchase of land for site of new municipal administration building	$ 25,000
	ii)Phase I of new municipal administration building	$165,000
		$190,000
199W	Phase II of new administration building	$275,000
199X	Phase III of new administration building	$225,000
199Y		0
199Z		0

Protective Services

(a) Police

The current municipal administration building will be renovated and expanded so that it can serve as a police station. This project will commence in 199Y once Phase III of the new administration building has been completed.

Year	Project	Cost
199Y	Expansion and renovation of former municipal administration building	$125,000

(b) Fire

The municipality has, for many years, been transferring annual amounts to an equipment replacement reserve fund. Most equipment requirements for the fire department have been met either through this reserve fund or purchased directly from the operating budget. However, the replacement of one of the fire trucks in 199Z will require capital borrowing since the reserve fund balance will probably be insufficient to meet the cost of the new truck. Other equipment needs will continue to be funded through the reserve fund or from the operating budget.

Year	Project	Cost
199Z	Purchase of new fire truck (cost $175,000 less transfer from reserve $50,000 and L.S.D. share $25,000)	$100,000

Transportation

a) Street surfaces

Over 2 km of streets remain unpaved in the municipality. First Street, a length of 730 m requires extensive work including surface improvements, curbs, and gutters.
Storm sewers have already been installed here. Various streets are in need of resurfacing.

Year	Project	Cost
199V	First Street, surface improvements, curbs, gutters	$ 75,000
	Resurface Second and Third Streets	$ 25,000
		$100,000
199W	Resurface Fourth and Fifth Streets	$ 25,000
199X	Resurface Sixth and Seventh Streets	$ 25,000
199Y	Resurface Eighth and Ninth Streets	$ 25,000
199Z	Resurface Tenth and Eleventh Streets	$ 25,000

b) Storm sewers

Extensive improvements have been made to the storm sewer system over the past few years. No work is scheduled for the year 199W. Work is scheduled for 199V on the municipality's only provincial highway, the cost of which is completely recoverable from the Department of Transportation.

Year	Project	Cost
199V	Cost of $125,000 to be completely recovered from the Department of Transportation	$ 0
199W		0
199X		$ 25,000
199Y		$ 25,000
199Z		$ 25,000

c)Sidewalks

Sidewalk construction has been limited to the needs of senior citizens and schools. This policy will be maintained over the next few years but funds are to be allocated for this purpose in the years 199X and 199Z.

Year	Project	Cost
199V		$ 0
199W		0
199X		$ 25,000
199Y		$ 25,000
199Z		$ 25,000

d)Equipment

The municipality's policy with respect to the equipment utilized for road maintenance and snow removal is to maintain and replace this equipment on a programmed basis.

High cost pieces of equipment with life expectancy greater than seven years are financed in part by transfers from the Machinery and Equipment Reserve Fund.

Year	Project	Cost
199V	i)Replace 1975 Backhoe Cost $100,000 less $55,000 from General Operating Fund	$ 45,000
	ii)Replace 196S Street Sweeper Cost $90,000 less $50,000 from Reserve	$ 40,000
		$ 85,000
199W	Replace snow blower no. 1 Cost $100,000 less trade-in $50,000	$ 50,000
199X	Replace air compressor, steam jenny, jack hammers and compactor	$ 50,000
199Y	Replace 197T Backhoe Cost $110,000 less $60,000 from Reserve	$ 50,000
199Z	i)Replace 197S 3 Ton Truck	$ 30,000
	ii)Replace plow attachments on 198S Tandem	$ 20,000
		$ 50,000

Recreation and Culture

This function has received little emphasis in recent years with respect to capital spending. Of late, it has been determined that it is necessary to renew ice plant equipment in the arena and to begin a proper green areas and parks maintenance program. In the next few years the arena, the recreation centre and green areas will all need capital funds.

Year	Project	Cost
199V	Various park and green areas maintenance equipment	$ 25,000
199W	i)Upgrading tennis courts and development of additional ball fields	$ 25,000
	ii)Development of parks in new subdivisions	$ 25,000
		$ 50,000
199X	Renewal of ice plant Cost of $75,000 less $25,000 from local non-profit organizations	$ 50,000
199Y	Recreation Centre - roof renewal	$ 50,000
199Z	Arena - roof renewal	$ 75,000

MUNICIPALITY OF MODELVILLE

FIVE YEAR CAPITAL BUDGET SUMMARY

GENERAL OPERATING FUND

SERVICES	TERM	199V	199W	199X	199Y	199Z
GENERAL GOVERNMENT						
Municipal Building	20	$190	$275	$225		
PROTECTIVE						
Building Renovation	20				$125	
Fire truck	10					$175
TRANSPORTATION						
Street surfacing	7	$225	$ 25	$ 25	$ 25	$ 25
Storm sewers	10			25	25	25
Sidewalks	10			25	25	25
Equipment	10	190	100	50	110	50
Subtotal		$415	$125	$125	$185	$125
RECREATION AND CULTURE						
Equipment	5	$ 25				
Tennis Courts	10	$ 25				
Parks	10	$ 25				
Arena	10		50	$ 75		$ 75
Recreation Centre	10				$ 50	
Subtotal		$ 25	$ 50	$ 75	$ 50	$ 75
Total Capital Expenditures		$630	$450	$425	$360	$375
SOURCE OF FUNDS						
Grants		$125				
Reserves		$ 50			$ 60	$ 50
Trade-Ins			$ 50			
Operating Fund		$ 55				
Local Service Districts						$ 25
Other				$ 25		
Long-term Borrowing		400	400	400	300	300
Total Sources of funds		$630	$450	$425	$360	$375
AMORTIZATION PERIODS						
20 Years		$190	$275	$225	$125	
10 Years			100	150	150	275
7 Years		185	25	25	25	25
5 Years		25				
Total Long-term Borrowing		$400	$400	$400	$300	$300

DEBT PROFILE AND BUDGET ESTIMATES

MUNICIPALITY: MODELVILLE

FUND: GENERAL OPERATING

PREPARED BY: JOAN ARCHER, TREASURER

POPULATION: 3508

BUDGET ESTIMATES

(In Thousands)	AUDIT 199U	BUDGET 199U	BUDGET 199V	PROJECTED 199W	199X	199Y	199Z
REVENUES							
Warrant	1026	1108	1214	1289	1368	1458	1558
Unconditional grant	790	794	826	859	893	929	966
Non–Tax Revenue (3%)	545	560	523	539	555	571	589
Surplus of Previous Year							
Deficit	5						
TOTAL REVENUE	2366	2462	2563	2686	2816	2959	3113
EXPENDITURES							
Debt Cost	420	406	404	438	446	491	524
Capital From Budget	8	10	55	40	50	30	30
Water Costs	175	181	190	205	217	229	241
Reserves	10	10	10	10	10	10	10
Deficit of Previous Year	3	6	5				
Other Expenditures	1750	1849	1899	1994	2094	2198	2308
TOTAL EXPENDITURES	2366	2462	2563	2686	2816	2959	3113
Warrant	1026	1108	1214	1289	1368	1458	1558
Tax Rate Denominator	100386	105669	114679	120413	126434	132755	139393
TAX RATE	1.0221	1.0486	1.0587	1.0703	1.0820	1.0982	1.1177

DEBT PROFILE

Present Debt service Cost	420	406	344	303	248	239	220
Interim Financing			42	42	42	32	32
Outstanding Authority $100 10 years			18	18	18	18	18
Planned Borrowing							
Year/ Rate/ Term/ Amount							
199V 12.5 5,7&20 400				74	74	74	74
199W 12.5 7,10&20 400					63	63	63
199X 12.5 7,10&20 400						65	65
199Y 12.5 7,19&20 300							51
199Z 12.5 7 & 10 300							
TOTAL DEBT SERVICE COST	420	406	404	438	446	491	524
RATIOS							
Debt Cost to Gross Expenditures	17.75%	16.49%	15.76%	16.29%	15.82%	16.60%	16.82%
Outstanding Debt – Dec 31	1645	1701	1726	1749	1828	1901	1898
Outstanding Debt to Tax Base	1.64%	1.61%	1.51%	1.45%	1.45%	1.43%	1.36%
Outstanding Debt per Capita	469	485	492	499	521	542	541
Debt Service Cost Effect on Tax Rate	0.1814	0.1729	0.1669	0.1743	0.1712	0.1824	0.1880

WATER AND SEWERAGE UTILITY FUND SECTION

DESCRIPTION OF PROJECTS

The water and sewerage system is in a relatively good financial position. The book value of the system amounts to $5,200,000. The outstanding long-term debt on these assets is $1,968,926. Council has attempted to provide a well planned, reliable, high quality water and sewerage system to its citizens while maintaining a reasonable debt load. This five year capital plan continues in this direction of maintaining the effort to maximize efficiency and reliability as well as allowing for the expansion of the system in order to accomodate new users.

The present user rate of $250 is in line with the average rate of other municipalities of similar size and type which is $260.

Parts of the water system date back 40 years. Many of these require extensive repairs and, indeed, some require complete renewal. This five year plan includes the municipality undertaking as much of this work as possible given the council's decision to limit increases in user rates to $15 per year over the next five years.

Water

199V	Renewal of water system on 1st street Costs 250,000 less $50,000 provincial grant and $50,000 from operating fund	$150,000
199W	Extension of water system into Belliveau Heights subdivision - costs $200,000 less $50,000 provincial grant	$150,000
199X	Extension of water system on second street Costs $170,000 less $20,000 from operating fund	$150,000
199Y	Renewal of water system on third street Costs $170,000 less $20,000 from operating fund	$150,000
199Z	Replacement of pumping station no. 1 Costs $170,000 less $20,000 from operating fund	$150,000

Sewerage

199V	Renewal of sewerage system on 1st street Costs $200,000 less $50,000 provincial grant	$150,000
199W	Extension of sewerage system into Belliveau Heights subdivision - costs $250,000 less $50,000 provincial grant and $50,000 from operating fund	$150,000
199X	Renewal of sewerage system on second street Costs $170,000 less $20,000 from operating fund	$150,000
199Y	Renewal of sewerage system on third street Costs $170,000 less $20,000 from operating fund	$150,000
199Z	Renewal of lift station no.1 Costs $170,000 less $20,000 from operating fund	$150,000

MUNICIPALITY OF MODELVILLE

FIVE YEAR CAPITAL BUDGET SUMMARY

WATER AND SEWERAGE UTILITY FUND

SERVICES	Term	199V	199W	199X	199Y	199Z
Water						
Renewal	15	$250		$170	$170	$170
Extension	15		$200			
Sewerage						
Renewal	15	200		170	170	170
Extension	15	—	250	—	—	—
Total Capital Expenditures		$450	$450	$340	$340	$340
SOURCES OF FUNDS						
Grants		$100	$100			
Operating Fund		50	50	40	40	40
Long Term Borrowing (15 years)		300	300	300	300	300
Total Sources of Funds		$450	$450	$340	$340	$340

DEBT PROFILE AND BUDGET ESTIMATES

MUNICIPALITY: MODELVILLE

FUND: WATER & SEWER UTILITY

PREPARED BY: JOAN ARCHER, TREASURER

BUDGET ESTIMATES

(In Thousands)	AUDIT 199U	BUDGET 199U	BUDGET 199V	PROJECTED 199W	199X	199Y	199Z
REVENUES							
User Charge Fee	864	900	949	984	1037	1066	1133
Water Cost Transfer	175	181	193	201	209	217	226
Grants – Environment	35	35	35	35	35	35	35
Surplus of Previous Year							
Deficit	1						
Other							
TOTAL REVENUE	1075	1116	1177	1220	1280	1318	1394
EXPENDITURES							
Debt Cost	472	478	523	536	575	579	621
Operation and Maintenance(5%)	525	556	575	604	634	666	699
Reserves							
Capital	50	50	50	50	40	40	40
Deficit of Previous Year	3	5	0				
Other Expenditures (5%)	25	27	28	30	31	33	34
TOTAL EXPENDITURES	1075	1116	1177	1220	1280	1318	1394
User Charge Rate	240	250	263	270	283	291	310
Number of Equivalent Users	3600	3600	3600	3650	3660	3660	3660

DEBT PROFILE

Present Debt service Cost	472	478	458	408	400	358	352
Interim Financing			20	30	32	33	35
Outstanding Authority $50 15 years				8	8	8	8
Planned Borrowing							
Year/Rate/Term/Amount							
199V 12.5 15 300			45	45	45	45	45
199W 12.5 15 300				45	45	45	45
199X 12.5 15 300					45	45	45
199Y 12.5 15 300						45	45
199Z 12.5 15 300							45
TOTAL DEBT SERVICE COST	472	478	523	536	575	579	621